



Session 2 RIA exercise

Excerpts of regulation to practice RIA

WG 2

Requirements to the activities of investment intermediaries

Chapter 8

Section III (Risk Management)
and Section IV (Internal Audit)

**ORDINANCE No. 38 OF 25 JULY, 2007 ON THE REQUIREMENTS TO THE
ACTIVITIES OF INVESTMENT INTERMEDIARIES**

In effect as of 1st November, 2007, issued by the Financial Supervision Commission
Promulgated SG, issue 67 from 17 August, 2007

Chapter Eight

INTERNAL ORGANISATION, INTERNAL CONTROL, RISK MANAGEMENT AND
INTERNAL AUDIT

Section III

Risk Management

Art. 82. (1) The management body of the investment intermediary shall adopt and apply rules for risk management, adequate to the pursued by the investment intermediary business, which shall:

1. contain policy and procedures which identify the risks relating to the investment intermediary's activities, procedures and systems, as well as to the tolerated by the investment intermediary level of risk, if such can be established;

2. contain effective procedures and measures to manage the risks associated with the investment intermediary's activities, procedures and systems in accordance with the tolerated by the investment intermediary admissible level of risk;

3. include mechanisms for exercising control over the adequacy and efficiency of the policy and procedures under item 1 and over compliance by the investment intermediary and the persons who work under a contract for the investment intermediary, with the procedures and measures under item 2;

4. include mechanisms for control over the adequacy and effectiveness of the measures taken to address such deficiencies and inconsistencies in the policy and procedures under item 1 and the procedures and measures under item 2, including the impossibility for their observance by the persons.

(2) The management body of an investment intermediary shall at least once in a quarter review and assess the rules under para 1, and in case of deficiencies and/or need of improvement of the risk management, shall adopt amendments and settlements to the rules. Regardless of the requirements according the preceding sentence, the management body shall adopt amendments and supplements to the rules under para 1 whenever the need of that is established.

(3) An investment intermediary where applicable and in view of the nature, scale and complexity of its business and the nature and range of the performed investment services and activities undertaken in the course of that business, shall have a risk management department, which operates independently and applies the policy and procedures under para 1.

(4) The risk management department shall prepare and present to the management body, as well as to the supervisory body, if any, of the investment intermediary by the 10th day of every month a report on the department's activities in the preceding month, in which it shall indicate the established deficiencies and inconsistencies in the policy and the procedures under para 1 item 1 and the procedures and measures under para 1 item 2, as well as the measures taken for their elimination.

(5) An investment intermediary may not establish a risk management department according para 3 if the maintenance of such is not appropriate in view of the nature, scale and complexity of its business and the nature and range of the performed investment services and activities undertaken in the course of that business and may prove at any time that the policy and procedures established according para 1 satisfy the requirements of para 1 and are effective.

(6) In the case under para 5, on request of the deputy chairman, the investment intermediary shall submit evidence of the availability of the conditions under para 5. The deputy chairman may order the investment intermediary to establish a risk management department according para 3, if the conditions of para 5 were not complied with.

Section IV

Internal Audit

Art. 83. (1) An investment intermediary, where applicable and in view of the nature, scale and complexity of its business and the nature and range of the performed investment services and activities undertaken in the course of that business, shall set up and maintain an internal audit department, which functions separately and independently from the other departments and activities and examines and evaluates the adequacy and effectiveness of the adopted by the investment intermediary internal rules and the established systems of internal organization, internal control, information storage and processing, accounting, etc.

(2) To the persons from the internal audit department shall apply accordingly the requirements under Art. 76 para 3 and Art. 77 para 3, and for the person in charge of the department – the requirements under Art. 77 para 2.

(3) The person in charge of the internal audit department shall adopt a plan for conducting the audits under para 1 and shall ensure its observance.

(4) After conducting an audit in consistence with the plan according para 3, the person in charge of the internal audit department may give recommendations for removal of the established deficiencies and inconsistencies. In the cases under the preceding sentence, the department shall check the undertaken in compliance with them actions and the applied measures and shall verify their fulfillment.

(5) The internal audit department shall prepare and present to management body, as well as to the supervisory body, if any, of the investment intermediary by the 10th day of every month, a report on the department's activities for the preceding month, where it shall indicate the established deficiencies and inconsistencies, as well as the measures taken for their removal.

(6) An investment intermediary may not set up an internal audit department, or it may consists of one person only, if the maintenance of such according para 1-3 is not appropriate and

proportionate in view of the nature, scale and complexity of its business and the nature and range of the performed investment services and activities.

(7) In the case under para 6, on request of the deputy chairman, the investment intermediary shall submit evidence of the availability of the conditions under para 6. The deputy chairman may order the investment intermediary to set up an internal audit department, if the existence of such is needed in view of the nature, scale and complexity of the investment intermediary's business and the nature and range of the performed investment services and activities.

(8) The management body of an investment intermediary shall on an annual basis, by 31st January, review and assess the operation of the internal audit department and shall undertake appropriate measures if it is necessary to improve its activities. Regardless of the requirement under the preceding sentence, the management body shall take appropriate measures to improve the internal audit whenever the need of that is established.